

Message Text

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ACTION EB-07

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5062

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 13808

E.O. 11652: GDS

TAGS: EAIR, UK

SUBJECT: US/UK BILATERAL AVIATION AGREEMENT
RENEGOTIATION

REF: STATE 210907, LONDON 13624

1. UK NEGOTIATING GOALS:

IT SEEMS CLEAR THAT THE PRIMARY GOAL OF THE UK IN THE RENEGOTIATION IS TO CHANGE THE IMBALANCE IN REVENUES WHICH HAS RESULTED FROM OPERATIONS UNDER THE BERMUDA AGREEMENT. THE BRITISH HAVE STATED THAT THE IMBALANCE IS THE MAIN REASON FOR RENOUNCING THE AGREEMENT AND WE SEE NO REASON NOT TO TAKE THEM AT THEIR WORD. WE EXPECT THEY WILL TRY TO ACCOMPLISH THIS PRINCIPALLY BY THE IMPOSITION OF CAPACITY PRE-DESIGNATION, THE REDUCTION IN U.S. CARRIER 5TH FREEDOM TRAFFIC, AND GAINING ADDITIONAL ROUTES TO AND FROM THE U.S. THEY HAVE INSISTED THAT THEY ARE OPEN-MINDED AND ARE PREPARED TO CONSIDER NEW AND RADICAL SOLUTIONS TO REACH THEIR GOAL. FOR EXAMPLE, THEY SUGGESTED AT THE LAST BILATERAL TALKS IN WASHINGTON THAT THE PACIFIC ROUTES MIGHT WELL BE LEFT TO U.S. CARRIERS ON THE BASIS OF A TRADE-OFF OF RIGHTS OF EQUIVALENT VALUE IN OTHER GEOGRAPHIC AREAS. THE FACT THAT SEVERAL U.S. CARRIERS ARE INVOLVED AND THEIR RIGHTS AND REVENUES IN VARIOUS AREAS ARE EXTREMELY

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DIFFICULT TO TRADE ONE AGAINST THE OTHER OF COURSE WOULD

MAKE THIS APPROACH DIFFICULT FOR THE U.S.

2. NEGOTIATING TACTICS:

WE BELIEVE THE EXPOSITION OF THE BRITISH NEGOTIATING TACTICS REPORTED LONDON 13624 IS ACCURATE. THE BRITISH CONSIDER THAT A 50/50 BALANCE IN REVENUES AND BENEFITS FROM BILATERAL AIR TRANSPORTATION IS SELF-EVIDENTLY FAIR AND A GOAL BOTH SIDES SHOULD STRIVE FOR. HOWEVER, THEY BELIEVE THAT THE ONLY WAY TO OBTAIN U.S. AGREEMENT TO A REDUCTION IN THE U.S. CARRIERS' SHARE OF THE MARKET WILL BE BY RAISING THE LEVEL OF CONSIDERATION ON THE U.S. SIDE ABOVE AVIATION INTERESTS. WE THINK THEY WILL TRY TO BRING FOREIGN RELATIONS PRESSURES TO BEAR ON THE GROUNDS OF MAINTAINING OVERALL US/UK RELATIONS AND BRITAIN'S ECONOMIC DIFFICULTIES.

3. DECISION-MAKING PROCESS IN THE UK:

DEPARTMENT OF TRADE: WE HAVE NO REASON TO BELIEVE THAT DECISION-MAKING ON THE RENEGOTIATION IN THE DEPARTMENT OF TRADE DIFFERS FROM THAT WHICH IS THE USUAL PRACTICE IN THE UK GOVERNMENT, I.E., CIVIL SERVANTS AT THE ACTION OFFICE LEVEL (IN THIS CASE ROGERS AND HIS AIDES) PROPOSE A COURSE OF ACTION AND DISCUSS IT WITH UPPER LEVEL CIVIL SERVANTS (SHOVELTON) TO AGREE ON A LINE OF ACTION. AT SIGNIFICANT STAGES, THIS IS THEN TAKEN TO THE MINISTERIAL LEVEL. IN THE DEPARTMENT OF TRADE PARLIAMENTARY UNDER SECRETARY OF STATE STANLEY CLINTON DAVIS IS THE MINISTER MOST INVOLVED AND IS RESPONSIBLE FOR COORDINATING TRANSPORT POLICY WITH PARLIAMENT. WHEN NECESSARY, AND SURELY IN THE CASE OF THE RENEGOTIATION, THE POLICY DECISIONS THEN REACH THE SECRETARY OF STATE FOR TRADE, EDMUND DELL.

4. IT SEEMS CLEAR THAT DEPUTY SECRETARY SHOVELTON AND UNDER SECRETARY ROGERS ARE IN COMPLETE AGREEMENT ON THE GOALS OF THE RENEGOTIATION. SHOVELTON SAYS THE IMBALANCE IN BENEFITS UNDER THE BERMUDA AGREEMENT IN FAVOR OF THE U.S. HAS EXISTED FOR FAR TOO LONG AND IT IS TIME THAT IT WAS CORRECTED. HE NOTED ON ONE OCCASION THAT HE AND ROGERS (WHO WERE AT OXFORD TOGETHER) EACH SHOULD HAVE CONFIDENTIAL

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JUST ENOUGH TIME BEFORE THEY BOTH RETIRE AS EXPECTED IN 1979 TO COMPLETE THE JOB OF GETTING A NEW US/UK AVIATION AGREEMENT NEGOTIATED AND IMPLEMENTED. WHILE WE HAVE THE IMPRESSION THAT ROGERS HAS A GOOD BIT OF FREEDOM IN THE DETAILS OF HOW NEGOTIATIONS ARE CONDUCTED, THERE IS NO QUESTION IN OUR MINDS THAT HE HAS SHOVELTON'S FULL SUPPORT IN THE PRESENT ENDEAVOR. WHILE DELL MAY NOT BE TAKING A VERY ACTIVE ROLE IN AVIATION (THIS IS NOT CLEAR),

IT SEEMS CLEAR THAT CLINTON DAVIS IS KEPT UP-TO-DATE ON
EVENTS AND ISSUES AND PROBABLY EXERCISES SIGNIFICANT
CONTROL.

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5. OTHER AGENCIES OF THE UKG:

THE RENEGOTIATION AND THE DECISION TO RESTRICT
CAPACITY ON THE CHICAGO AND MIAMI ROUTES WERE CONSIDERED
AT MINISTERIAL LEVEL IN THE FCO AS WELL AS THE DEPARTMENT
OF TRADE, AND THE RENEGOTIATION ALMOST CERTAINLY WAS ALSO
CONSIDERED IN OTHER INTERESTED UKG AGENCIES, I.E., THE
TREASURY AND THE CIVIL AVIATION AUTHORITY. THE FCO,
HOWEVER, IS UNLIKELY TO TAKE A VERY ACTIVE ROLE UNLESS
CONVINCED THAT UK-US RELATIONS ARE UNDULY IMPERILED, AND
FCO ECONOMIC OFFICERS HAVE A STRONG FEELING FOR BRITISH
ECONOMIC INTERESTS.

6. IT IS OUR UNDERSTANDING THAT THERE ARE NO SIGNIFICANT
DIFFERENCES IN BASIC POLICY BETWEEN THE DEPARTMENT OF
TRADE AND LORD BOYD-CARPENTER, THE CAA CHAIRMAN. IT IS
WORTH NOTING THAT THE CAA HAS AS ONE OF ITS DIRECTED
GOALS THE IMPROVEMENT OF THE UK BALANCE OF PAYMENTS
THROUGH CIVIL AVIATION EARNINGS. CERTAINLY THE DOT AND

THE TREASURY WOULD NOT DISAGREE WITH THIS AIM. AS TO OVERALL POLICY, CAA AGREES WITH DOT ON THE "SPHERES OF INFLUENCE" POLICY VIS-A-VIS BRITISH AIRWAYS AND CALEDONIAN AND HAS APPROVED THE ROUTE SWAPS NEEDED TO IMPLEMENT IT. CAA DISAGREED WITH FORMER TRADE MINISTER
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SHORE'S ORDER ON THIS POLICY AND ON LAKER'S PERMIT BECAUSE OF THE FORM OF THE ORDER; CAA DOES NOT DISAGREE ON THE GOAL OF THE POLICY AND COULD NOT BE EXPECTED, THEREFORE, TO EXERT PRESSURE AGAINST DOT TO CHANGE ITS PRESENT POLICIES OR GOALS IN ANY SIGNIFICANT WAY.

7. WE CONSIDER, AS NOTED ABOVE, THAT THE MAJOR UK GOVERNMENT AGENCIES DIRECTLY INVOLVED, DOT, FCO, AND CAA, ARE IN REASONABLY CLOSE ACCORD ON WHAT SHOULD BE THE GOALS OF UK AVIATION POLICY. FROM EXPERIENCE IN RECENT YEARS, PARTICULARLY IN CHARTER AVIATION POLICY, IT APPEARS THAT TOURISM INTERESTS BOTH IN AND OUT OF THE GOVERNMENT HAVE LITTLE OR NO INPUT INTO AVIATION NEGOTIATIONS. IN GENERAL, THE UK CONSUMER HAS A VERY SMALL VOICE IN ESTABLISHING AND IMPLEMENTING UK POLICIES. FOR THESE REASONS, IT SEEMS UNLIKELY THAT TAKING OUR CASE TO THE PUBLIC WOULD BRING ANY SIGNIFICANT PRESSURE TO BEAR ON THE GOVERNMENT TO EFFECT A CHANGE IN AVIATION POLICY. THE CHANCES OF INFLUENCING THE LABOR GOVERNMENT THROUGH PRESSURES BROUGHT TO BEAR BY THE CONSERVATIVE OPPOSITION ALSO SEEM SLIM SINCE THE PARLIAMENT, BOTH LABOR AND CONSERVATIVE SIDES, ENDORSED THE GOVERNMENT'S ACTION IN RENOUNCING THE BERMUDA AGREEMENT AND ITS PLANS TO RENEGOTIATE. IN THIS REGARD, IT SHOULD BE KEPT IN MIND THAT, IN RECENT YEARS, THE LABOUR PARTY HAS SHOWN NOTICEABLY MORE CONCERN TO MAINTAIN GOOD RELATIONS WITH THE U.S. THAN THEIR CONSERVATIVE COUNTERPARTS. ALSO THE CONSERVATIVES TEND TO BE AT LEAST AS NATIONALISTIC ON AVIATION MATTERS AS LABOUR. WHILE THERE MIGHT BE DIFFERENCES IN APPROACH IF THE GOVERNMENT WERE TO CHANGE, IT SEEMS UNLIKELY THAT OUR INTERESTS WOULD BE MORE READILY ACCOMMODATED BY THE CONSERVATIVES THAN BY LABOUR; IN FACT, THE REVERSE MIGHT WELL BE TRUE.

8. WE BELIEVE THE BRITISH NEGOTIATORS THINK THEY CAN, IN THE END, SUCCESSFULLY INVOKE THE US-BRITISH POLITICAL RELATIONSHIP AND BRITAIN'S ECONOMIC DIFFICULTIES. WE DOUBT THAT THE OTHER BRITISH AGENCIES DISAGREE WITH THIS. IF THIS IS CORRECT, TO OBTAIN MORE FCO OR, PERHAPS, UK TREASURY INVOLVEMENT WOULD SEEM TO BE MOVING IN THE DIRECTION THE BRITISH HOPE FOR AND WOULD SEEM TO US TO
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BE COUNTER-PRODUCTIVE, AT LEAST AT THIS STAGE OF THE
NEGOTIATIONS. AS FAR AS THE TREASURY IS CONCERNED, THE
MAJOR CONSIDERATION IS LIKELY TO BE IMPROVEMENT IN THE
BALANCE OF PAYMENTS. THROUGH INCREASED EARNINGS BY BRITISH
AIRWAYS, WHICH IS EXACTLY WHAT THE DEPARTMENT OF TRADE
IS TRYING TO ACHIEVE. IF A GOOD ECONOMIC CASE COULD
BE MADE THAT INCREASED EARNINGS BY BA WOULD, IN FACT, BE
MORE THAN BALANCED BY LOSSES TO THE UK ECONOMY IN
TOURISM OR ELSEWHERE DUE TO A RADICALLY CHANGED AIR
TRANSPORT AGREEMENT, PERHAPS SOME PRESSURE FROM TREASURY
AND OTHERS COULD BE BROUGHT TO BEAR ON THE UK NEGOTIATORS.
HOWEVER, WE WOULD EXPECT HIGH LEVEL PRESSURES AND PRO-
TESTS ON BROAD POLITICAL AND ECONOMIC GROUNDS IF
"CESSATION OF SERVICE" ARGUMENTS ARE TAKEN SERIOUSLY.

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